

EXECUTIVE SECRETARIAT
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ABC
Executive Secretary
10/3/83
Date

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CABINET AFFAIRS STAFFING MEMORANDUM

Date: 9/30/83 Number: 168795CA Due By: _____Subject: Cabinet Council on Economic Affairs: Tuesday, October 4, 19838:45 a.m. in the Roosevelt Room TOPIC: International Trade

	Action	FYI		Action	FYI
ALL CABINET MEMBERS	<input type="checkbox"/>	<input type="checkbox"/>	CEA	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Vice President	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CEQ	<input type="checkbox"/>	<input type="checkbox"/>
State	<input checked="" type="checkbox"/>	<input type="checkbox"/>	OSTP	<input type="checkbox"/>	<input type="checkbox"/>
Treasury	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Defense	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Attorney General	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Interior	<input type="checkbox"/>	<input checked="" type="checkbox"/>			
Agriculture	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Baker	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Commerce	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Deaver	<input type="checkbox"/>	<input type="checkbox"/>
Labor	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Clark	<input type="checkbox"/>	<input checked="" type="checkbox"/>
HHS	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Darman (For WH Staffing)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
HUD	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Harper	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Transportation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Jenkins	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Energy	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Counsellor	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
CIA	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
UN	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
USTR	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CCCT/Gunn	<input type="checkbox"/>	<input type="checkbox"/>
			CCEA/Porter	<input checked="" type="checkbox"/>	<input type="checkbox"/>
GSA	<input type="checkbox"/>	<input type="checkbox"/>	CCFA/	<input type="checkbox"/>	<input type="checkbox"/>
EPA	<input type="checkbox"/>	<input type="checkbox"/>	CCHR/Carleson	<input type="checkbox"/>	<input type="checkbox"/>
OPM	<input type="checkbox"/>	<input type="checkbox"/>	CCLP/Uhlmann	<input type="checkbox"/>	<input type="checkbox"/>
UA	<input type="checkbox"/>	<input type="checkbox"/>	CCMA/Bledsoe	<input type="checkbox"/>	<input type="checkbox"/>
SBA	<input type="checkbox"/>	<input type="checkbox"/>	CCNRE/	<input type="checkbox"/>	<input type="checkbox"/>

REMARKS:

The Cabinet Council on Economic Affairs will meet on Tuesday, October 4, 1983 at 8:45 a.m. in the Roosevelt Room. The agenda and background paper is attached.

DCI
EXEC
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RETURN TO:

☐ Craig L. Fuller
Assistant to the President
for Cabinet Affairs

☐ Katherine Anderson
☒ Tom Gibson

☐ Don Clarey
☐ Larry Herbolsheimer

Associate Director

THE WHITE HOUSE
WASHINGTON

CABINET COUNCIL ON ECONOMIC AFFAIRS

October 4, 1983

8:45 A.M.

Roosevelt Room

AGENDA

1. Report of the Working Group on the Economic Impact of International Trade (CM#409)

File
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CABINET COUNCIL ON ECONOMIC AFFAIRS

October 4, 1983

PARTICIPANTS

The Vice President

Secretary Regan, Chairman Pro Tempore

Secretary Block

Secretary Baldrige

Secretary Pierce

Chairman Feldstein

Jack Svahn, Assistant to the President for Policy Development
Under Secretary Ford

(Representing Secretary Donovan)

Acting Deputy Secretary Burnley

(Representing Secretary Dole)

Deputy Director Wright

(Representing Director Stockman)

Deputy Trade Representative Lighthizer

(Representing Ambassador Brock)

Roger Porter, Executive Secretary

Thomas Gibson, Associate Director

For Presentation:

Robert G. Dederick, Former Under Secretary for Economics,
Department of Commerce

Additional Attendees:

Jim Cicconi, Special Assistant to the President and Special
Assistant to the Chief of Staff

Pam Bailey, Special Assistant to the President and Deputy
Director of Public Affairs

Mary Jo Jacobi, Special Assistant to the President for
Business and Commerce

✓ Doug McMinn, NSC

Eugene McAllister, OPD

David Platt, Office of the Vice President

Alan Wallis, Under Secretary for Economic Affairs, DOS

Manuel Johnson, Assistant Secretary of the Treasury for
Economic Policy

Jonathan Rose, Assistant Attorney General, DOJ

John Knapp, General Counsel, HUD

Alton Keel, Associate Director, OMB

CIA

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CEADeficits-Actual and Prospective

	<u>1981</u>	<u>1982</u>	<u>1984</u>	<u>Years Immediately Beyond</u>
Trade (BOP)	-28	-36	-80 to -100	Little Improvement
Current Account	+4	-11	-50 to -70	

Explanation for TOTAL Trade Deficit

Structural surplus on services	- over 30
Faster and stronger recovery in U.S.	Minor
Economic weakness in LDC's	- less than 10
Decline in oil prices	+ less than 10
High value of dollar	- over 50

- a. Reduction of inflation here, which has increased attractiveness of U.S. assets)
- b. Tensions elsewhere, which have increased attractiveness of U.S. as safe haven) Minor
- c. High real returns on U.S. physical investment due to tax incentives) 0
- d. High real interest rates resulting from:
 - 1. Uneven implementation of monetary policy) 0
 - 2. Anti-inflationary monetary policy) Major
 - 3. Federal budget deficits)
- e. Deliberate undervaluation by other countries 0

Effects of Deficits

Everything else held equal:

The capital inflows which are the counterpart of the current account deficits keep U.S. interest rates lower than otherwise and, hence, capital formation higher than otherwise.

Deficits benefit LDC's and their creditors

Deficits add to foreign claims on U.S. future income

Adjustment problems are created for specific sectors, i.e., export and import-competing industries.

Appropriate Remedial Actions

Reduce Federal budget deficit

TREASURYDeficits-Actual and Prospective

	<u>1981</u>	<u>1982</u>	<u>1984</u>	<u>Years Immediately Beyond</u>
Trade (BOP)	-28	-36	-90 to -100	Little Improvement
Current Account	+4	-11	-60 to -70	

Explanation for CHANGE in Trade Deficit
Between 1982 and 1984

Faster and stronger recovery in U.S.	-10
Economic weakness in LDC's	-20
Decline in oil price	0
High Value of dollar	-30
a. Reduction of inflation here, which has increased attractiveness of U.S. assets)
b. Tensions elsewhere, which have increased attractiveness of U.S. as safe haven)
c. High real return on U.S. physical investment due to tax incentives) -30
d. High real interest rates resulting from:)
1. Uneven implementation of monetary policy)
2. Anti-inflationary monetary policy	0
3. Federal budget deficits	0
e. Deliberate undervaluation by other countries	0

Effects

Everything else held equal:

The capital inflows which are the counterpart of the current account deficit keep U.S. interest rates lower than otherwise and, hence, capital formation higher than otherwise

Deficits benefit LDC's and their creditors

Deficits add to foreign claims on U.S. future income

Adjustment problems are created for specific sectors, i.e., export and import-competing industries

Appropriate Remedial Actions

Reduce Federal spending

THE WHITE HOUSE

WASHINGTON

September 30, 1983

MEMORANDUM FOR THE CABINET COUNCIL ON ECONOMIC AFFAIRS

FROM: ROGER B. PORTER *RBP*

SUBJECT: Agenda and Papers for the October 4 Meeting

The agenda and papers for the October 4 meeting of the Cabinet Council on Economic Affairs are attached. The meeting is scheduled for 8:45 a.m. in the Roosevelt Room.

The Council will consider the report of the Working Group on the Economic Impact of International Trade. This is Economic Policy Study 9 of those commissioned by the Council on June 30.

The Working Group, under the direction of Under Secretary of Commerce Robert Dederick, has developed papers on:

1. The U.S. Trade Deficit: Causes, Prospects, and Consequences
2. The Effects of Foreign Capital Inflows on Interest Rates and Investment Funds in the United States
3. U.S. Agricultural Exports
4. Are U.S. International Transactions Statistics Adequate?
5. Impact of 1980-1982 Changes in Trade Ratios on Output and Employment in Selected Industries

These papers, and a carefully drafted eight page summary of them, are attached.

Attachments

THE WHITE HOUSE
WASHINGTON

CABINET COUNCIL ON ECONOMIC AFFAIRS

October 4, 1983

8:45 a.m.

Roosevelt Room

AGENDA

1. Report of the Working Group on the Economic Impact of International Trade (CM#409)



UNITED STATES DEPARTMENT OF COMMERCE
The Under Secretary for Economic Affairs
Washington, D.C. 20230

September 26, 1983

MEMORANDUM FOR Cabinet Council on Economic Affairs

FROM: Robert G. Dederick
Under Secretary for Economic Affairs *RGD*

SUBJECT: Report of the CCEA Working Group on the
Economic Impact of International Trade

On June 30, the CCEA requested a series of 13 economic studies on current economic problems. This is the report on Economic Policy Study Number 9.

The Working Group divided its study into 5 papers to be prepared by individual agencies. The first, done by the CEA, analyzes the U.S. trade deficit, its causes, prospects, and consequences. The second paper, prepared by the Treasury Department, considers the effects of foreign capital inflows on interest rates and investment funds in the United States. The third paper, prepared by the Department of Agriculture, discusses the importance of U.S. exports to the U.S. agricultural sector, to the U.S. economy in general, and to the stability of world agricultural markets. The final two papers, prepared by the Department of Commerce, focus on (a) the effects of the weakness in U.S. manufactured exports on manufacturing output and employment in the U.S., and (b) the adequacy of U.S. international transactions statistics. Each of the papers is attached.

In addition, the Treasury Department presented an alternative view of the causes, prospects, and consequences of the U.S. trade deficit. Because of the fundamental differences of opinion that were revealed in the Treasury alternative, the Working Group was not able to reach a consensus on this issue. Thus, the Treasury paper is also attached.

THE TRADE DEFICIT: CAUSES, PROSPECTS AND CONSEQUENCES

The U.S. merchandise trade deficit, which was \$36 billion in 1982, is expected to widen to roughly \$60 billion or more in 1983 and to \$90 billion or more in 1984. As has been the case for many years, the balance on current account is stronger than the trade balance, because it includes services, in which we run a surplus. This is even more true now than in past decades, apparently because there has been a long-run trend in U.S. comparative advantage away from merchandise and toward

services. However, the trade deficit was sufficiently large in 1982 that the current account went into deficit that year, and the current account deficit is expected to widen along with the trade deficit in 1983-84.

According to the CEA, the most important reason for the deficits is the high value of the dollar. A secondary reason at present is the drop in exports to financially endangered countries in Latin America. Still another depressant both this year and next will be the faster business recovery in the U.S. than among almost all of our trading partners.

The Treasury argues that three-quarters of a projected \$40 billion slippage in the deficit between 1982 and 1984 is attributable to two factors: first, the faster business recovery in the U.S. than among other industrial countries--accounting for \$10 billion; and second, a drop in exports to financially endangered LDCs--accounting for \$20 billion. To the extent that the strong dollar is contributing to the increase in the trade deficit, it is only partly attributable to high real interest rates. Treasury argues that the strong dollar is the result of the slowing of inflation in the U.S. (which makes the dollar a more attractive store of value to other countries), uncertainties abroad (which make the dollar more attractive as a safe haven), and high real returns on investment (which result from the Administration's investment incentives).

Commerce and OMB recognize that both the CEA and Treasury arguments have validity, but do not believe that there is sufficient evidence to quantify precisely the effect of each of the factors. Clearly, high real interest rates are acting as a strong magnet for capital. It is equally clear that the problems of the LDC's and the quicker business turnaround here than abroad are contributing to the U.S. trade deficits. In general, however, DOC, OMB, and the CEA believe that the effect of high real interest rates is likely to become increasingly dominant.

To the extent that the high value of the dollar is the most important reason for the deficits, what is the most important reason for the high value of the dollar? The generally agreed-upon answer begins with the observation that real interest rates have been generally higher in the U.S. than in other industrial nations. High real interest rates raise the demand for dollar assets relative to foreign assets, attract a capital inflow, and thus raise the price of the dollar. In addition to the differential in real interest rates, a second reason sometimes given for the increase in demand for U.S. assets and resulting dollar appreciation is the "safe haven" argument: uncertainty in Latin America and elsewhere causes capital to flow to the United States.

Moving back still further, why are real interest rates so high in the U.S? Investment must by definition equal total saving (private saving less government deficits). Real interest rates can rise either because investment shifts up, or because saving shifts down. At issue is the relative importance of these two factors. The Treasury emphasizes the first alternative. Other members of the Working Group emphasize the second. As evidence, they point to the sharp drop in saving and investment during recent years, even as a share of GNP. The decline in saving is divided between a fall in private saving and a fall in public saving, i.e., the large increase in the budget deficit.

Treasury agrees that the hoped-for increase in investment has not yet materialized. But, Treasury argues that incentives to capital formation which were enacted as part of the President's program in 1981 will raise investment in the future, and that today's high real interest rates and capital inflow are a manifestation of that expectation on the ~~part of the market~~.

ILLEGIB

Treasury also asserts that the U.S. real interest rate has been raised by increased variability and uncertainty in monetary policy. The market is said to view the return on bonds as riskier than in the past. Thus, a higher "risk premium" must be added on to the expected rate of return in order to induce people to hold bonds. Other Working Group members believe that this argument is inconsistent with the capital inflow and appreciated dollar. Any increase in U.S. monetary uncertainty should lead to a fall in the demand for U.S. assets (with the rise in U.S. real interest rates as a result), rather than to the observed rise in the demand for U.S. assets (with the rise in U.S. real interest rates as a cause). Foreign investors presumably are as sensitive to uncertainty in the U.S. as Americans.

Despite some disagreement on the causes of the deficits, the full Working Group agrees on the effects. Output and employment are adversely affected in those U.S. industries that export, or that compete with imports. But, if we assume that the dollar level of aggregate economic activity is basically determined by monetary policy, then it follows that the loss in income suffered by the export and import-competing industries is offset by gains in other industries. Such an assumption appears to be appropriate at present, since the Federal Reserve is committed to a monetary policy consistent with a recovery pace that avoids a resurgence of inflation.

If improvement in the trade sector were accomplished through an increase in taxes or a reduction in transfer payments, the offsetting cutback would show up in the consumer sector. If improvement were accomplished through a decrease in government

spending on goods and services, it would show up in the corresponding sectors, e.g. military goods. And finally, if improvement were accomplished through renewed monetary tightening and further increases in real interest rates, the offsets would be declines in construction, consumer durables, and business investment in plant and equipment.

It is useful to view these points in terms of the capital inflow from abroad that is the counterpart of our current account deficit. Real interest rates have been driven up by an imbalance between saving and investment (in the form of a decline in domestic private and public saving in the majority view, in the form of an increase in investment in the Treasury view). The capital inflow from abroad serves to make up the gap between domestic saving and investment. It dampens the increase in the real interest rate and, thus, allows more investment than would otherwise take place.

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Changing the mix between monetary and fiscal policy could reduce the widening trade deficit real interest rates and, in turn, the value of the dollar. But, if one takes monetary and fiscal policies as given, then the capital inflows which generate the trade deficit have the favorable effect of allowing more spending on domestic investment than otherwise would be possible.

THE EFFECTS OF FOREIGN CAPITAL INFLOW ON INTEREST RATES
AND INVESTMENT FUNDS IN THE UNITED STATES

Traditionally, the current account was thought to drive international transactions. A net export deficit was interpreted as reflecting dwindling U.S. competitiveness in foreign markets, forcing the United States to borrow abroad to finance imports, and weakening the exchange rate. Currently, however, there are reasons to believe that the capital account is the driving force, as foreigners seek to invest in the United States. As they exchange their own currencies for ours, the value of the dollar is pushed upward, making U.S. exports more expensive and imports cheaper and contributing to the increase in the current account deficit.

If it is true that the rest of the world is intentionally seeking out the United States as a capital investment location, there could be a beneficial impact on U.S. credit and equity markets and a valuable supplement to domestic savings, with the current account deficit rising as a more or less inevitable consequence.

The following can be said about the capital inflows:

- o They are small compared with gross domestic saving and total funds raised in credit and equity markets, and, therefore, their impact on investment and interest rates so far has probably been fairly limited.
- o Still, because of very low total net saving recently in our economy (and negative saving in the fourth quarter of 1982), these funds may have provided a significant supplement.
- o Overall, foreign inflows have probably had a beneficial impact on interest rates, although the full impact is difficult to quantify.
- o Much larger inflows forecast for the next several years could have a more demonstrable influence on investment and interest rates.
- o To the extent that foreign inflows may have resulted in some potential increase in the money supply, such a rise has been offset as much as necessary through the Federal Reserve's open market operations with little difficulty.
- o Economic theory suggests that the marked reduction of inflation in this country over the past two and one-half years would tend to increase the worldwide demand for dollars as an unofficial (or official) reserve asset. To the extent that this demand resulted in inflows which settled into elements of M1 or M2, it may have contributed somewhat to the recent drop in velocity. Further, to this extent, the rapid growth of monetary aggregates over the past year or so has been less inflationary than otherwise and has represented a shift in the dollar demand function, which presumably should not be offset by open market operations.

While, on balance, the effect of foreign capital inflows is probably favorable for the investment outlook in this country, some caution may be warranted in viewing foreign capital markets as a long-term source of funds. Gross or social returns may be higher abroad, but on a tax- and risk- adjusted basis, they are the same at the margin as in the U.S. Our tax cuts have in fact shifted the balance, and imply a new equilibrium point. To the extent that the United States is being temporarily viewed as a safe haven due to its political stability and the superior liquidity of funds invested in its capital markets, resources could be withdrawn in the future if prospects for other countries improve.

Finally, in assessing any policy implications of the current international flow of funds, it should be noted that the U.S. financial market is the largest and most liquid in the world, providing an efficiency unparalleled elsewhere. This is one source of our economic strength and also provides this Nation with substantial service earnings. There may be appeals, particularly by countries suffering losses of capital, that we take temporary regulatory measures to stem this flow. Such measures could only detract from the attractiveness of the U.S. market and reduce its long-run earnings potential.

U.S. AGRICULTURAL EXPORTS

Since the early 1970's, U.S. agriculture has devoted more of its resources to, and generated a greater share of income from, the export market. Today, production from two out of every five acres goes overseas, compared with one out of five in 1970. The value of farm exports as a share of marketings has doubled in the past 10 years and currently represents about 25 percent of farmers' cash receipts. It is becoming more apparent that domestic demand alone cannot support the U.S. farm sector when it is operating at full capacity. Exports are crucial to the economic health and well-being of American agriculture.

Every dollar of agricultural export earnings generates just over a dollar in related activity throughout the rest of the economy. Approximately 3 percent of the Gross National Product is derived from farm exports. On the employment side, agricultural exports generate over 1.0 million jobs, of which nearly 60 percent are related to processing, handling and distribution of products for export.

In the 1970's economic growth, expanded liquidity, and policy changes abroad led to rising exports, which bolstered farm prices and income, reduced government program expenditures, and helped reduce our overall trade deficit. During the decade, U.S. wheat, soybean and meal exports doubled while feedgrain exports tripled. The USSR and China became our major grain markets and the European Community our major soybean market.

The recent decline in U.S. agricultural exports has been caused by the world-wide economic recession, appreciation of the dollar, the indebtedness problems of many importing countries, strong competition from other suppliers, and policy changes in the USSR. These factors reduced foreign demand for U.S. foods, feeds, and fibers.

Agricultural export prospects are brighter, however, for the next year. At the same time, though expected world economic recovery, recent policy agreements on grains with the Soviet

Union and on textiles with China, and reduced competitor supplies in some commodities will be acting to booster sales. In addition, higher prices should boost the dollar value of agricultural exports. To be sure, the strong dollar and still-weak demand for livestock products could temper the exports of foods, feeds and fiber. In the mid-to-date-1980's, U.S. exports are expected to rise with population and income growth abroad. However, the annual expansion in U.S. exports for the decade of the 1980's is expected to be at less than half the rate of the 1970's.

"Are U.S. International Transactions Adequate?"

U.S. international transactions statistics can be characterized as "adequate" but certainly with room for significant improvement. The emergence of large statistical discrepancies (errors and omissions) in the past few years, particularly for 1982, has generated increased questioning of the adequacy of the accounts and the allocation of the discrepancy between the current account (goods, services, and unilateral transfers) and the capital account.

Most informed observers conclude that the statistical discrepancy is largely accounted for by unrecorded private capital flows, particularly during periods of political, economic and financial, and military uncertainties in many areas. This view is supported by the extreme quarterly volatility of the discrepancy. It also squares with the fact that the dollar has appreciated steadily in foreign exchange markets at a time when the current account was moving toward deficit. Without any doubt, better reporting of a number of current account items is needed, but there is no reason to assume that the net effect of improved data would be to increase receipts, rather than payments. 7

Efforts are underway by BEA to strengthen estimates for a number of the service accounts. Also, rather wide discrepancies between U.S. and Japanese current account data indicate that plans for a bilateral U.S.-Japanese current account reconciliation might be initiated, if resources could be committed and if both partners agree, with the successful U.S.-Canadian reconciliation serving as the model.

To the extent that there is a strong desire on the part of some foreign investors not to reveal their identity, efforts to improve the private capital accounts will be severely hampered. Among the gaps in capital flow data, the most important probably is associated with portfolio investment flows. Reports to the Treasury, particularly by U.S. non-bank firms, and to a lesser extent by banks, although required by existing regulations, may be subject to uncertainties as to whether requirements apply to some transactions, including those involving new financial market practices and instruments.

International transactions data for the first half of 1983 indicate that the record 1982 discrepancy will not be repeated this year. But, the discrepancy may remain rather large, on average, until prospects improve for a more stable and prosperous world economy.

IMPACT OF 1980-82 CHANGES IN TRADE RATIOS ON OUTPUT AND EMPLOYMENT IN SELECTED INDUSTRIES

What would have happened to shipments and employment in selected manufacturing industries and in manufacturing as a whole in 1982, if exports/shipments and import penetration 1/ ratios had remained the same that year as in 1980? An admittedly over simplified answer to this question is given in the accompanying table on industrial effects.

For all manufacturing industries, actual shipments in 1982 were lower than computed hypothetical shipments by \$22.7 billion, or by about one percent. This implies roughly a quarter million fewer manufacturing jobs.

The aircraft, steel, motor vehicles and parts, and electronic computing equipment industries exhibited the most pronounced adverse effects. In all of these industries the exports/shipments ratios declined between 1980 and 1982, while the import penetration ratios increased. Only aircraft equipment, n.e.c. (not elsewhere classified), farm machinery, and construction machinery had modest increases in output and employment as a result of changes in the trade ratios between 1980 and 1982.

The analyses found that even high technology sectors are not immune to the internal and external forces that have caused U.S. trade balances to deteriorate in recent years.

1/ Shipments are calculated as the value of domestic output plus or minus inventory changes. The import penetration ratio is defined as imports divided by apparent consumption which, in turn, equals shipments plus imports minus exports.

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Effects of Changes in Trade Ratios Between 1980 and 1982
on Domestic Industry Shipments and Employment in 1982

<u>Product Group</u>	<u>Difference Between Actual and Computed</u> <u>1982 Product Shipments</u>	<u>Direct and Indirect</u> <u>1982 Employment Effects 1/</u>
	<u>Difference</u> <u>(millions)</u>	<u>Total</u>
Motor vehicles (3711) 2/	\$-1,223	-22,904
Motor vehicle parts (3714) 2/	-260	-7,247
Aircraft (3721)	-3,458	-75,642
Aircraft equipment, n.e.c. (3728)	300	8,479
Construction machinery (3531)	63	1,585
Farm machinery (3523)	530	13,931
Oil field machinery (3533)	-221	-3,703
Steel mill products (3312,5,6,7)	-3,212	-58,389
Industrial organic chemicals, n.e.c. (2869)	-129	-1,227
Electronic computing equip. (3573)	-2,359	-55,583
Semiconductors (3674)	-650	-17,296
Radio and TV communication equipment (3662)	-730	-23,733
Radio and TV receiving sets (3651)	-1,075	-26,120
Photographic equipment and supplies (3861)	-556	-8,341
Paper & paperboard (2621,31,61)	-224	-3,654
Totals	<u>\$-13,204</u>	<u>-279,844</u>
All Manufacturing	\$-22,722	

1/ Employment effects represent the estimated number of jobs lost or gained in 1982 because of the changes in trade ratios between 1980 and 1982.

2/ Trade between the United States and Canada is excluded from these calculations.

Source: U.S. Department of Commerce, Bureau of Economic Economics.

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